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UNCLAS SECTION 01 OF 02 KAMPALA 000077

SENSITIVE
SIPDIS
AF/E FOR JTREADWELL, AF/RSA FOR LMAZEL, LGRIESMER, RROWLES
TREASURY FOR REBECCA KLEIN
COMMERCE FOR ROBERT TELCHIN

E.O. 12958: N/A
TAGS: [PREL](#) [EAID](#) [EINT](#) [UG](#) [CH](#)
SUBJECT: CHINESE ENGAGEMENT IN UGANDA

REF: 10 STATE 10152; 08 KAMPALA 1483

¶1. (SBU) Summary: China's economic ties to Uganda continue to accelerate on all fronts making it one of the country's top foreign investors. Already heavily involved in infrastructure projects, China is now attempting to become an even larger player in Uganda's newly discovered oil deposits. The widening Chinese economic footprint, however, carries with it negative perceptions among many Ugandans of China-centric business practices, corruption, and shoddy products. China does not currently collaborate or coordinate with the United States or other donors in Uganda on areas of seeming common interest like health. This is in response to reftel regarding Chinese engagement in Africa (ref. A). End Summary

Trade and Investment: Up, Up, Up

¶2. (SBU) The rapid expansion of Chinese involvement in Uganda that began five years ago has resulted in China providing the country's second largest source of incoming foreign investments for 2009. Uganda's Investment Authority (UIA) announced in January 2010 that new Chinese investments worth \$213 million were second only to Britain's \$267 million. According to the UIA, these Chinese projects created 6,117 jobs versus 3,958 jobs created by British investments. The significance of China's ranking is highlighted by the fact that Chinese investments as late as 2005 included only a restaurant and hotel and ranked near the bottom of foreign investment in Uganda (ref. B) The Uganda Bureau of Statistics also report an increase in Chinese engagement, as Chinese imports to Uganda rose from \$138.2 million in 2006 to \$365.7 million in 2008. During the same period, Ugandan exports to China - namely fish, tannery products, and peanuts - nearly doubled from \$6.8 million to \$12.7 million, and the number of Chinese visitors to Uganda increased from 2,951 to 6,088. This growth encouraged Chinese investors to launch a China Enterprises Chamber of Commerce in Uganda in March 2009, which promotes China-Uganda trade and represents over 30 firms.

Infrastructure, Infrastructure... and Oil

¶3. (SBU) Chinese Foreign Minister Yang Jiechi visited Uganda in January 2009 and signed four bi-lateral agreements worth \$75.8 million for projects in infrastructure, health, and information and communications. The Chinese government is currently building a hospital in Kampala, an agricultural demonstration center, and a government office block building. It has donated anti-malarial medicine and committed to setting up a malaria clinic in Mulago hospital. It has also provided fishery experts to help the Ugandan government address the problem of declining fish stocks. Over the last three years, 390 Ugandan technical personnel have traveled to China for training on a variety of subjects. The China Road and Bridge Corporation is upgrading the road between Soroti and Lira in northern Uganda with funding from the World Bank and is expected to complete the project later this year. China's Export/Import Bank has given a loan of \$106 million to build a National Data Transmission Backbone and e-Government Infrastructure that is presently under construction by Huawei Technologies of China. The project aims to create a national fiber optic network that will lower the cost of bandwidth and connect government ministries, local governments, schools, and rural communities to submarine fiber optic cable systems. While preferring Western partners for military training and doctrine, Uganda relies on China and other old eastern bloc countries like North Korea and Russia for arms and hardware. Chinese engagement will become even more significant if the China National Offshore Oil Corporation (CNOOC) is successful

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in its bid to partner with UK firm Tullow Oil to develop Uganda's newly-discovered petroleum deposits. CNOOC and the French company Total are expected to each acquire a significant share of Tullow's Uganda holdings in the coming weeks. Another small but telling indication of China's commitment to its bilateral relationship was the recent completion of a multi-year construction project to rebuild its chancery complex in Kampala.

The Downside Risks

¶4. (SBU) Greater Chinese investment and assistance in Uganda has generated some resentment due to local perceptions that Chinese investments favor

their own businesses, and that Chinese companies often provide substandard products. For instance, in January 2010, the Chinese Ambassador to Uganda delivered 244,000 doses of two Chinese anti-malaria drugs to Uganda at a public event that was featured in large paid advertisements in local papers. The donation nevertheless only amounted to about one week of Uganda's requirements for malaria treatment. Moreover, it was later revealed that one of the drugs, Arco, had not been pre-qualified by the World Health Organization, and that part of the funding for the malaria clinic in Mulago hospital was earmarked for testing of these drugs.

¶5. (SBU) China's growing engagement in Uganda has also raised concern that Chinese business practices are more susceptible to corruption. The National Data Transmission project for example, is being scrutinized by Parliament and the press due to allegations of wide-spread fraud with sub-standard or inadequate equipment installed at inflated market prices. China's close relationship with the Sudanese government in Khartoum has also not helped build trust given Uganda's support for the Government of Southern Sudan.

Cooperation with China: Unrealized Potential

16. (SBU) There is great potential in Uganda for greater cooperation and collaboration between China and the U.S. and other major Western donors. At the moment, however, tangible examples of such collaboration are virtually nil, even in areas where China professes to have interests in common with the U.S. and other donors, such as health. It is unlikely that collaboration with other donors will increase unless the Chinese change the way they do business and are more open to working through established donor coordination mechanisms. China is not a member of the Kampala-based Local Development Partners Group (LDPG), the primary donor policy coordination body in Uganda, and it does not participate in any of the LDPG's many sectoral working groups. The World Bank is currently in the process of inviting the Chinese Embassy into the LDPG.

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